

## Message Text

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ACTION AF-10

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-05 H-01

INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02

SS-15 USIA-06 AID-05 COME-00 EB-08 FRB-03 TRSE-00

XMB-02 OPIC-03 LAB-04 SIL-01 OMB-01 CEA-01 STR-04

IO-13 /114 W

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R 031428Z AUG 77

FM AMEMBASSY PRETORIA

TO SECSTATE WASHDC 8294

INFO AMEMBASSY LONDON

AMCONSUL JOHANNESBURG BY POUCH

AMCONSUL CAPE TOWN BY POUCH

AMCONSUL DURBAN BY POUCH

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E.O. 11652: N/A

TAGS: ECON, SF

SUBJECT: SOUTH AFRICAN ECONOMIC RECOVERY EFFORTS BURDENED  
BY POLITICAL FACTORS

1. SUMMARY: ALTHOUGH SOUTH AFRICA HAS MANAGED TO SWING ITS CURRENT ACCOUNTS INTO SURPLUS, IT IS STILL NOT READY TO RISK VIGOROUS MEASURES TO RE-STIMULATE THE ECONOMY. EASING OF LENDING LIMITS IS FORESEEN AND POSSIBLY SOME INJECTION OF NEW FUNDS FOR BLACK HOUSING. GOVERNMENT OFFICIALS ARE CONCERNED OVER MOUNTING BLACK UNEMPLOYMENT BUT ARE ALSO FEARFUL OF THE REACTION OF THE WHITE ELECTORATE IF THEY MOVE TOO OPENLY TO DEAL WITH BLACK PROBLEMS. LACK OF POLITICAL CONFIDENCE SHOWS UP IN THE CUTBACK OF FOREIGN INVESTMENT CAPITAL AND GROWING LEAKAGES IN THE PRIVATE SECTOR. END SUMMARY.

2. DURING PAST TWO WEEKS, WE HAVE HELD MEETINGS WITH LEADING OFFICERS OF SOUTH AFRICAN RESERVE BANK (DE KOK AND STALS),  
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PRIME MINISTER'S DEPUTY ECONOMIC ADVISOR (BRANDT), ASSOCIATED CHAMBER OF COMMERCE (PARSONS), EDITORS OF FINANCIAL MAIL AND INDIVIDUAL BUSINESSMEN. PICTURE WHICH EMERGES IS OF A RECESSION-BOUND ECONOMY "BUMPING ALONG THE BOTTOM" WITH NO STRONG FORCES FOR RECOVERY NOW IN MOTION OR EMERGING. BRANDT SAID GOVERNMENT HAD BEEN PROMISING FOR SO LONG THAT THINGS WOULD LOOK UP IN SIX MONTHS THAT NO ONE WAS LISTENING AND LONGER. WITH

CALLS ON ALL SIDES FOR SOME FORM OF RE-STIMULATION, GOVERNMENT ECONOMIC EXPERTS FEEL CABINET WILL SOON BOW TO THE POLITICAL IMPERATIVES IN SPITE OF PREOCCUPATION WITH BALANCE OF PAYMENTS EFFECT. FEAR HELD BY BRANDT IS THAT MODEST MEASURES MAY LEAD TO WEAK RECOVERY THAT IS QUICKLY SNUFFED OUT.

3. ON AUGUST 25, RESERVE BANK WILL, ACCORDING TO DE KOK, ANNOUNCE GOOD SURPLUS ON BALANCE OF PAYMENTS FOR THE FIRST SIX MONTHS IN CONJUNCTION WITH GOVERNOR'S ANNUAL STATEMENT. PRIME MINISTER WILL THEN MEET WITH ECONOMIC ADVISORY COUNCIL AND PROBABLY THEREAFTER SOME MILD ACTION WILL BE TAKEN SUCH AS LIFTING LENDING LIMITS OF COMMERCIAL BANKS. IF THIS IS EFFECTIVE, IT WILL BE FOR PSYCHOLOGICAL REASONS SINCE BANKS ARE NOW FAR FROM LENT UP.

4. BUSINESS CYCLE AFFECTED BY POLITICAL SITUATION: RESERVE BANK OFFICERS SAY THE PRESENT CYCLE WOULD BE ENTIRELY NORMAL AND MANAGEABLE EXCEPT FOR POLITICAL FACTORS. FIRST OF THESE IS CUT-OFF OF FOREIGN MEDIUM AND LONG-TERM CAPITAL, A SERIOUS MATTER FOR A COUNTRY WITH A PATTERN OF CAPITAL IMPORTS OF 3 PERCENT OF GNP. (SOME LONGER-TERM CREDITS IN FORM OF FINANCING OF IMPORTS FOR MAJOR PROJECTS CONTINUE TO BE AVAILABLE FROM EUROPE.) SECOND FACTOR WHICH BECAME EVIDENT DURING FIRST QUARTER OF THIS YEAR IS SHORT-TERM CAPITAL OUTFLOWS IN PRIVATE SECTOR AND UNRECORDED TRANSACTIONS TOTALLING R411 MILLION AGAINST A SURPLUS ON CURRENT ACCOUNT OF R39 MILLION. RESERVE LIMITED OFFICIAL USE

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BANK, WHICH HITHERTO HAD MINIMIZED UNAUTHORIZED CAPITAL EXPORTS, NOW ADMITS THAT THESE FIGURES REFLECT EFFORTS OF BUSINESSMEN TO GET CAPITAL OUT OF THE COUNTRY BY VARIOUS DEVICES BECAUSE OF POLITICAL UNCERTAINTIES. THEY MENTION UNDULY HIGH DIVIDEND PAYMENTS, QUESTIONABLE "RESEARCH FEES", ETC. THUS, IN SPITE OF ENORMOUSLY PAINFUL BUT SUCCESSFUL EFFORTS TO REVERSE CURRENT ACCOUNT DRAIN, THEY WERE DISMAYED TO FIND RESERVES HAD STILL DECLINED BECAUSE OF LACK OF POLITICAL CONFIDENCE.

5. IN CONFIRMATION OF ABOVE, WE WERE TOLD BY US BUSINESSMAN THAT LONDON PRESS REPORTED THAT SAG WAS CRITICAL OF MULTINATIONALS FOR EXCESSIVE DIVIDEND PAYOUTS. OTIS WAS MENTIONED IN THIS CONNECTION.

6. DESTABILIZING EFFECTS ON UNEMPLOYMENT: FIGURES FOR JUNE OF REGISTERED UNEMPLOYED AMONG WHITES, COLOREDS AND ASIANS WERE STILL LESS THAN ONE PERCENT, ALTHOUGH THIS WAS TRIPLE THE LEVEL OF 18 MONTHS EARLIER. BLACK UNEMPLOYMENT IS BELIEVED TO BE OVER 15 PERCENT AND OFFICIALS SAY FRANKLY THAT THEY EXPECT IT TO RISE STILL FURTHER. UNSKILLED LABOR IS ESPECIALLY HARD HIT. A US-OWNED FIRM IN A HOMELAND BORDER AREA HAS REDUCED ITS ALL-BLACK STAFF BY 5 PERCENT THROUGH ATTRITION BUT WOULD

STILL HIRE LAB ASSISTANTS AND TYPISTS IF IT COULD FIND QUALIFIED ONES.

7. ALTHOUGH THE SITUATION HITS BLACK YOUTH MOST HEAVILY, IT IS HARD TO DEMONSTRATE A DIRECT CONNECTION BETWEEN URBAN UNREST AND JOBLESSNESS. THE GOVERNMENT HAS RELIED ON COMFORTABLE VIEW THAT, IF JOBS DO NOT EXIST IN CITIES, BLACKS WILL DRIFT BACK TO SUBSISTENCE AGRICULTURE. BRANDT SAID THIS "SOLUTION" WAS BEING RETHOUGHT, FIRST, BECAUSE THE THEORY NO LONGER HELD IF RURAL LIVING FELL BELOW SUBSISTENCE LEVELS AND, SECOND, GOVERNMENT'S REAL FEAR OF DISSIDENT MOVEMENTS DEVELOPING IN RURAL AREAS THAT WOULD SUPPORT GUERRILLA ACTIVITY.

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8. FOREIGN TRADE SITUATION: SOME NON-GOVERNMENT ECONOMISTS AND GROUPS ARE URGING THAT, IN ADDITION TO 15 PERCENT SURCHARGE ON NON-GATT IMPORTS, GOVERNMENT SHOULD IMPOSE DIRECT IMPORT CONTROLS. IT IS ARGUED THAT THIS WOULD ENABLE IT TO ACT VIGOROUSLY TO RESTIMULATE ECONOMY WITHOUT RISKING A SURGE OF IMPORTS. SAG OFFICIALS REJECT THIS APPROACH FOR SEVERAL REASONS, MOST IMPORTANT OF WHICH IS THAT IT WOULD NOT BE EFFECTIVE WHEN GOVERNMENT IMPORTS (OIL, DEFENSE, ETC.) ARE DOMINANT AND CONSUMER IMPORTS ARE ALREADY DOWN TO 14 PERCENT OF TOTAL.

9. WHILE DE KOK PREDICTS THAT EXCELLENT TRADE RESULTS SHOULD PRODUCE A CURRENT ACCOUNT SURPLUS FOR RMAINDER OF THIS YEAR, BRANDT FEELS THERE IS NOT MUCH ADDITIONAL GROWTH POTENTIAL IN EXPORT MARKETS WHERE DIAMONDS, COAL, IRON HAVE BEEN LEADERS. SLOW RECOVERIES AMONG MAIN TRADE PARTNERS ARE A SOURCE OF LIMITED OFFICIAL USE

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DISAPPOINTMENT. INVENTORIES ARE STILL HIGH OWING TO REDUCED BUSINESS ACTIVITY SO JUMP IN IMPORTS IS NOT FEARED IN NEAR TERM. MOREOVER, WITH RAND TIED TO DOLLAR, RECENT WEAKNESS IN DOLLAR VALUE IS REGARDED AS GOOD FOR SOUTH AFRICA'S TRADE POSITION. DE KOK NOTED THAT DOLLAR HAD IN ANY EVENT ONLY WEAKENED VIS-A-VIS MARK, SWISS FRANC AND YEN.

10. INTERNATIONAL LOANS: DE KOK RECENTLY RETURNED FROM SWING THROUGH EUROPE WITH FINANCE MINISTER HORWOOD. SAID H WAS STRUCK BY EXTENT TO WHICH EUROPEAN BANKERS AND FINANCIERS ARE INFLUENCED BY US ATTITUDE TOWARD SOUTH AFRICA. ALTHOUGH OUR DIRECT ECONOMIC STAKE IS NOT SO GREAT, PSYCHOLOGICAL EFFECT OF A SHIFT IN US ATTITUDE TOWARD INVESTMENT WOULD BE PROFOUND. HE INDICATED GREAT CONCERN AND CURIOSITY OVER STEPS US MIGHT TAKE IN COMING PERIOD AND MADE STRONG APPEAL NOT TO DISCOURAGE INVESTMENT BECAUSE FIRST TO SUFFER FROM THIS WOULD BE BLACKS, AS ALREADY DEMONSTRATED IN CURRENT RECESSION. MADE FAMILIAR ARGUMENT THAT BLACK ECONOMIC ADVANCES OF PAST DECADE COULD BE TRACED TO ECONOMY'S DYNAMIC GROWTH. ALSO, WITH GOVERNMENT'S BELT-TIGHTENING AND ALL SEGMENTS OF SOCIETY EXPERIENCING LOWER REAL INCOMES, RESISTENCE TO MEASURES FOR RELIEF OF BLACKS IS THAT MUCH GREATER. DE KOK, WHO WAS IN US FOR SA INVESTMENT SEMINAR, SAID HIS US FRIENDS PLEADED FOR SAG AT LEAST TO ANNOUNCE A PROGRAM TO UPGRADE CONDITION OF BLACKS. HE REMARKED THAT GOVERNMENT WAS OBLIGED TO ACT BY "STEALTH" IN THIS AREA.

11. CENTRAL BANKERS DO NOT ATTACH TOO MUCH SIGNIFICANCE TO FACT THAT RECENT PLACEMENT OF DM 35 MILLION LOAN BY SA RAILWAYS WAS OVERSUBSCRIBED. SAID IT SHOWS ONLY THAT WITH A SUFFICIENT PREMIUM (RATE WAS 8.25 PERCENT) A THREE-YEAR CREDIT MAY STILL BE ATTRACTIVE IN EUROPE. MOREOVER, THE RAILWAYS' STANDING IS HIGHER THAN OTHER PARASTATALS LIKE ISCOR OR ESCOM.

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12. OVERSUBSCRIPTION OF DOMESTIC ERGO OFFERING (ANGO-AMERICAN PROJECT FOR EXTRACTING URANIUM FROM MINE DUMPS) BY 18 TIMES IS A SYMPTOM OF "RECESSION LIQUIDITY" AND REALIZATION BY

INVESTORS THEY COULD TURN A QUICK PROFIT. DOMESTIC SAVINGS ARE CONCENTRATED IN SHORT END OF MARKET, AGAIN FOR POLITICAL REASONS, AND ARE NOT SEEN AS AVAILABLE TO REPLACE FOREIGN CAPITAL FOR LONGER-TERM INVESTMENTS.

13. SPENDING PRIORITIES: A SUB-CABINET COMMITTEE UNDER FINANCE SECRETARY BROWNE HAS BEEN FORMED TO DEFINE PRIORITIES IN GOVERNMENT SPENDING. OBJECT IS TO AVOID SITUATION OF 3-4 YEARS AGO WHEN TOO MANY MAJOR CAPITAL PROJECTS UNDERTAKEN AT ONCE (E.G. NEW HARBORS, SISHEN RAIL LINE, SASOL, KOEBURG) CONTRIBUTED TO PRESENT DIFFICULTIES. ALTHOUGH KOEBURG IS WELL SUPPORTED BY FRENCH EXPORTER CREDITS, WE UNDERSTAND CONSTRUCTION HAS BEEN STRETCHED OUT. PRIORITIES COMMITTEE COULD HELP POINT UP ANOMALIES LIKE FACT THAT MORE IS INCLUDED IN BY 1977 BUDGET FOR PRETORIA OPERA HOUSE THAN FOR ALL BLACK HOUSING IN COUNTRY. CONSTRUCTION OF NON-WHITE FACILITIES IS SECTOR MOST FREQUENTLY MENTIONED WHERE SOME STIMULATION POSSIBLE WITHOUT DIRECT EFFECT ON IMPORT BILL. WE BELIEVE GOVERNMENT MAY SOON MAKE SOME GESTURE IN THIS DIRECTION BUT IT IS LIKELY TO BE MODEST. STALS STRESSED THAT EVEN SELECTIVE INJECTION OF MONEY INTO ECONOMY SHOWS UP IN BALANCE OF PAYMENTS. URBAN FOUNDATION'S R70 MILLION SOWETO ELECTRIFICATION SCHEME FINALLY RECEIVED SPECIAL EXEMPTION FROM LENDING CEILINGS BECAUSE SOCIAL NEED OVERRODE FINANCIAL PRUDENCE. OFFICIALS SAY GOVERNMENT ALSO FEARFUL OF AROUSING BAD INSTINCTS OF WHITE ELECTORATE IF SIGNIFICANT NEW RESOURCES ARE EARMARKED FOR NON-WHITE PROJECTS IN SUPPLEMENTAL ESTIMATES DURING CURRENT AUSTERITY. BOWDLER

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## Message Attributes

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